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花房集团
HUAFANG GROUP

Huafang Group Inc.
花房集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3611)

**INSIDE INFORMATION
KEY FINDINGS OF INDEPENDENT INTERNAL CONTROL REVIEW
AND
CONTINUED SUSPENSION OF TRADING**

This announcement is made by Huafang Group Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company (i) dated March 20, 2023 in relation to the date of Board meeting; (ii) dated March 30, 2023 in relation to the unaudited annual results announcement for the year ended December 31, 2022; (iii) dated April 3, 2023 and April 25, 2023 in relation to, among other things, delay in publication of the audited consolidated final results for the year ended December 31, 2022 (the “**2022 Audited Annual Results**”) and suspension of trading; (iv) dated June 23, 2023 in relation to the Resumption Guidance; (v) dated June 30, 2023, September 29, 2023 and January 4, 2024 in relation to quarterly updates on status of resumption; (vi) dated July 25, 2023 in relation to updates on the Investigation; (vii) dated August 3, 2023 in relation to the resignation of the Company’s auditor; (viii) dated August 17, 2023 in relation to the appointment of the Company’s auditor; (ix) dated August 24, 2023 in relation to, among other things, update on the operating results for the six months ended June 30, 2023; and (x) dated August 31, 2023 in relation to the appointment of the Independent Investigator and the Internal Control Consultant (collectively, the “**Announcements**”). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

On June 19, 2023, the Company received a letter from the Stock Exchange setting out the guidance for the resumption of trading in the Shares, for the Company to conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

On August 31, 2023, the Company appointed AOGB Professional Consultancy Services Company Limited, an external and independent accounting firm with appropriate experience and credentials as the independent internal control consultant (“**Internal Control Consultant**”) to conduct an independent internal control review (the “**Internal Control Review**”) and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

On February 19, 2024, the Internal Control Consultant issued a report of the Internal Control Review (the “**Internal Control Review Report**”).

SCOPE OF THE INTERNAL CONTROL REVIEW

The Internal Control Consultant reviewed the Group’s internal controls systems in relation to investment management, treasury management, sales and revenue management, purchase and cost management, compliance supervision management and internal audit processes. Set out below is the scope of the Internal Control Review conducted by the Internal Control Consultant:

- (i) interview and discuss with the management of the Company (the “**Management**”) on the policies and procedures of the internal control systems in relation to the incidents of the Frozen Accounts (the “**Relevant Internal Control Systems**”) to understand how the Relevant Internal Control Systems were performed during the period from January 1, 2022 to March 31, 2023 (the “**Review Period**”);
- (ii) check and review meeting minutes, relevant report, organization chart and other supporting documents, and conduct walk-through testing;
- (iii) report the factual findings that the Internal Control Consultant identified to the Management and the Audit Committee after conducting the review on the Relevant Internal Control Systems;
- (iv) suggest rectification measures to those findings that the Internal Control Consultant identified to the Management; and
- (v) carry out follow-up review when the Group implements relevant improvement measures and report the Internal Control Consultant’s final review results to the Management and the Audit Committee.

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

The key findings of the Internal Control Review, corresponding recommendations for rectification and the Management’s responses are summarized as follows:

	Key Findings	Recommendation	The Management’s responses and follow-up results
1.	During the Review Period, the Internal Control Consultant checked the board resolution in relation to the product of the Investee Company (the “ Project ”), including the project introduction and profit budget analysis attached. The Internal Control Consultant noted that there was a lack of record showing the process and basis of the investment decision.	The documentation of investment decision should include: (1) the project initiator and other key invited participants; (2) challenges on the operation, compliance and backgrounds of the founding team of the target project; and (3) basis of the investment valuation.	The Management agreed to implement the recommendation and the Group has adopted and established the relevant internal control policies. The Management also confirmed that no new investments have been made up to the date of the Internal Control Review Report.
2.	During the Review Period, the investment department of the Group (the “ Investment Department ”) obtained financial and operational information from management of the invested projects through regular meetings. However, there were no relevant meeting minutes documenting these discussions.	The update provided by the management of the invested projects should include information on operating compliance. The Company should prepare minutes of the investment update meeting with signatures of participants. These minutes should include date, attendees, meeting channel and location, analysis conclusion, follow up matters and other relevant details.	The Management agreed to implement the recommendation and the Group has adopted and established the relevant internal control policies.
3.	The Company’s subsidiary provided back-office support services (such as financial settlement service) to the Project from April 2022 to December 2022 (the “ Service Period ”). During the Service Period, the Project’s fund-related activities are carried out through the bank accounts of the Company’s subsidiary, and its financial information was recorded in the ledger of the Company’s subsidiary, which was distinguished in Company’s financial system and excluded from the Company’s consolidated financial statements.	For projects which the Group would provide outsourced finance services, a separate set of financial information (including bank account linked with third-party payment platform accounts specific for the project) for such projects should be maintained by the Group to clearly distinguish the financial information of the investee companies from the Group.	The Management agreed to implement the recommendation and the Group has adopted and established the relevant internal control policies. The Company also confirmed that they have no longer provided such kind of services to any of its investee companies.

	Key Findings	Recommendation	The Management's responses and follow-up results
4.	During the Review Period, at the end of half a year/a year, there was a lack of records of fair value assessment methods for the investments, except for investments that had been evaluated by external valuers.	<p>a) The current operating and financial performance of each investment, the choice of evaluation method (internal or third-party evaluation) and the basis for such choices should be summarized and recorded at least on a yearly basis.</p> <p>b) If internal evaluation methods are used to determine fair value at the end of a period, relevant assumptions, data sources, models, calculations, and other details should be recorded.</p> <p>c) The relevant records should be signed by the participants and retained for future reference.</p>	The Management agreed to implement the recommendation and the Group has adopted and established the relevant internal control policies.
5.	During the Review Period, the Group regularly collected and complied details of the third-party payment platform accounts. However, there was a lack of recorded information justifying the reason, usage and purpose of opening those accounts. There was also no information in relation to the current status of corresponding accounts.	<p>a) When the Company applies for new third-party payment platform accounts, the Company needs to justify the action by stating the reason, usage, purpose, expected usage duration and other relevant information of opening those accounts.</p> <p>b) The Company should record the aforementioned relevant information and the actual usage status in the third-party payment platform account management ledger of the Group.</p> <p>c) The Company should periodically compare the accounts records stated in the third-party payment platform account management ledger of the Group with the account information provided by the third-party payment platforms to ensure the completeness of information under supervision of the Management.</p>	The Management agreed to implement the recommendation and the Group has established the relevant internal control policies.

	Key Findings	Recommendation	The Management's responses and follow-up results
6.	During the Review Period, the Group managed and analyzed the funds through daily capital plan and weekly capital report. However, these reports did not include information regarding the third-party payment platform accounts.	The weekly capital report should include the information of the third-party payment platform accounts and incorporate them into the daily supervision process. The responsible person in the finance department of the Company should review and provide approval based on the accuracy, completeness, and feasibility on execution.	The Management agreed to implement the recommendation and the Group has adopted and established the relevant internal control policies.
7.	During the Review Period, the Internal Control Consultant observed that the Company has an internal audit department which is responsible for evaluating the adequacy of the Group's internal control systems. The Internal Control Consultant also observed via audit trials and communication correspondence that the internal audit department of the Company had conducted internal audit work. However, no internal audit report was noted.	The internal audit department of the Company should prepare internal audit report based on the inspection work performed. The results and follow-up actions of the inspection on the rectification (if applicable) should be prepared by the internal audit department of the Company.	The Management agreed to implement the recommendation and the Group has established the relevant internal control policies.

Save as the findings set out in the table above, the Internal Control Consultant did not notice any other observation in connection with the sales and revenue management, purchase and cost management and compliance management processes, based on the agreed-upon procedures performed by the Internal Control Consultant.

Having considered the Internal Control Review Report and the remedial actions taken by the Group, and, in particular, that the Internal Control Consultant has performed follow-up review on the enhanced internal control processes and is of the view that the above key internal control weaknesses have been remediated, the Audit Committee and the Board are of the view that the remedial and improvement measures implemented by the Company are adequate and sufficient to address the key findings of the Internal Control Review Report, and the Company has in place adequate internal controls and procedures to meet obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on April 3, 2023 pending the publication of the 2022 Audited Annual Results, and will remain suspended until the Company fulfils the Resumption Guidance and any supplement or modification thereto. The Company will publish further announcement(s) to inform the shareholders of the Company of its progress in complying with the Resumption Guidance as and when appropriate, as well as quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Huafang Group Inc.
花房集团公司
Mr. ZHOU Hongyi
Chairman

Hong Kong, February 23, 2024

As at the date of this announcement, the Board comprises Ms. YU Dan as executive director; Mr. ZHOU Hongyi, Mr. CHEN Shengmin and Mr. ZHAO Dan as non-executive directors; and Mr. CHEN Weiguang, Mr. LI Bing and Ms. QIAN Aimin as independent non-executive directors.